

Berman	Jefferson	Peterson (FL)
Bonior	Johnson (SD)	Pomeroy
Borski	Johnson, E. B.	Rahall
Bryant (TX)	Johnston	Rangel
Clay	Kanjorski	Rivers
Clayton	Kaptur	Roybal-Allard
Clyburn	Kildee	Sanders
Coleman	Klink	Sawyer
Collins (IL)	Lewis (GA)	Schroeder
Collins (MI)	Lipinski	Scott
Conyers	Luther	Serrano
Costello	Markey	Stark
Coyne	Martinez	Stokes
Cramer	Mascara	Studds
Dellums	McDermott	Stupak
Dicks	McHale	Tanner
Dingell	McKinney	Taylor (MS)
Dixon	Meek	Thompson
Doggett	Menendez	Thurman
Edwards	Mfume	Torres
Engel	Miller (CA)	Torricelli
Evans	Mink	Velazquez
Fattah	Moakley	Waters
Fields (LA)	Mollohan	Watt (NC)
Filner	Nadler	Waxman
Flake	Oberstar	Williams
Foglietta	Obey	Wise
Ford	Olver	Woolsey
Gephardt	Owens	Yates
Hastings (FL)	Pastor	
Hilliard	Payne (NJ)	

ANSWERED "PRESENT"—1

Lowey

NOT VOTING—16

Barr	Hinchey	Volkmer
Bono	Hunter	Waldholtz
Chapman	Laughlin	White
DeFazio	Ros-Lehtinen	Wilson
Ewing	Tejeda	
Fowler	Tucker	

□ 1147

The Clerk announced the following pair:

On this vote:

Mr. Bono for, with Mr. DeFazio against.

Mrs. MEEK of Florida, Mr. DIXON, and Ms. ROYBAL-ALLARD changed their vote from "yea" to "nay."

Mr. KENNEDY of Massachusetts changed his vote from "nay" to "yea." So the resolution was agreed to.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

LAYING ON THE TABLE HOUSE RESOLUTION 260, WAIVING PROVISIONS OF CLAUSE 4(b) OF RULE XI AGAINST CONSIDERATION OF CERTAIN RESOLUTIONS REPORTED FROM COMMITTEE ON RULES

Mr. DREIER. Mr. Speaker, I ask unanimous consent that House Resolution 260, waiving the provisions of clause 4(b) of House rule XI against the consideration of certain resolutions reported from the Rules Committee, be laid on the table.

The SPEAKER pro tempore (Mr. LAHOOD). Is there objection to the request of the gentleman from California?

There was no objection.

CONFERENCE REPORT ON H.R. 1058, PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Mr. BLILEY. Mr. Speaker, pursuant to House Resolution 290, I call up the

conference report on the bill (H.R. 1058) to reform Federal securities litigation, and for other purposes.

The Clerk read the title of the bill.

The SPEAKER pro tempore. Pursuant to rule XXVIII, the conference report is considered as having been read.

(For conference report and statement, see proceedings of the House of Tuesday, November 28, 1995, at page H13692.)

The SPEAKER pro tempore. The gentleman from Virginia [Mr. BLILEY] and the gentleman from Massachusetts [Mr. MARKEY] each will be recognized for 30 minutes.

The Chair recognizes the gentleman from Virginia [Mr. BLILEY].

Mr. BLILEY. Mr. Speaker, I yield myself 3 minutes.

(Mr. BLILEY asked and was given permission to revise and extend his remarks.)

Mr. BLILEY. Mr. Speaker, I rise today in strong support of the conference report on H.R. 1058, the Private Securities Litigation Reform Act of 1995.

This is extremely important legislation for investors and for our economy. It is designed to curb frivolous and abusive securities litigation. This kind of litigation exacts a tax on this country's most productive and competitive companies and their shareholders.

Job-creating, wealth-producing companies that have done nothing wrong, too often find themselves subject to class action lawsuits whenever their stock price drops. They are forced to pay extortionate settlements, because the costs of defending these lawsuits are prohibitive. And, when companies are forced to settle, their shareholders, ultimately, pay the costs. I am pleased that when this legislation was considered by the House earlier this year, majorities of both parties, Republicans and Democrats, supported it.

This legislation puts control of class action lawsuits back in the hands of the real shareholders, where it belongs. Just as important, it gives judges the tools they need to dismiss frivolous cases before they turn into lengthy and costly fishing expeditions. I want to underscore this point. This legislation puts strong and effective tools in the hands of judges, and we expect them to use these tools to dismiss frivolous cases and to sanction those who bring them.

Critics of this legislation think we should preserve the status quo—or simply thinker with the present system. But we cannot allow the current system to continue, when those who benefit most from it are professional plaintiffs and lawyers. The cost of securities strike suits, to our economy in the form of lost jobs, to our investors in the form of diminished returns, and to our companies in the form of diminished competitiveness are too great.

Let me explain how the conference report would address the flaws in the current system.

First, it limits the kind of abusive class action lawsuits that are driven by

entrepreneurial lawyers and their stable of professional plaintiffs. It permits courts to select as lead plaintiff the shareholder most capable of representing the class—not just the plaintiff who happens to file first because some law firm already has a compliant on its word processing machine ready to go. The legislation also requires full disclosure of settlement terms to investors. We no longer will permit lawyers to hide the facts from their real clients, something they have been doing for years.

These are hardly radical reforms. But, they will ensure that real investors with real grievances are the ones driving the litigation, not those who only interest is in winning their share of attorney fees.

Second, the conference report discourages frivolous lawsuits by imposing costs on those who initiate them. To accomplish this, it requires a court to impose sanctions on a party if the complaint, or any motion, constitutes a violation of rule 11(b) of the Federal Rules of Civil Procedure; in other words, if the complaint or a motion was filed to harass or cause unnecessary delays or costs. Again, this is hardly radical, but it is only fair. Those who abuse the system to inflict unnecessary costs on others should pay a price.

The conference report seeks to encourage early dismissal of frivolous lawsuits and limit the costs of discovery. It requires lawyers who file a complaint to "plead with particularity" the facts that would support a charge of fraud. If you sue someone, you should be able to explain what they did, and why it was a fraud. And it prevents lawyers from launching "fishing-expedition" discovery while a motion to dismiss is pending.

The conference report provides a cap on damages. We all have seen situations where an earnings surprising sends the price of a company's stock into a tailspin. The problem in the current system is that damages often are measured when the stock drops to its lowest point, even though it quickly rebounds and may even be higher within days, weeks, or months. This bill prevents a temporary drop in price from yielding huge awards for lawyers and professional plaintiffs.

The conference report addresses the unfairness of joint and several liability, which now allows a plaintiff to seek 100 percent of his damages from a defendant whose actions may deserve only 1 percent of the blame. The legislation requires every defendant to pay his or her fair share of the damages, based on a finding by a judge or jury. But, except in special circumstances, a defendant cannot be held liable for 100 percent of the damages unless a plaintiff proves the defendant acted with actual knowledge. Small investors, however, will be able to recover 100 percent of their damages even from those defendants whose participation was relatively minor.

The conference report is careful not to change standards of liability under the securities laws. Unlike the bill passed by the House, the conference report does not codify recklessness as a standard of liability under the securities laws. That question is left to the courts.

The conference report encourages disclosure of forward-looking information by establishing a real safe harbor for companies and others who disclose this information. Forward-looking information is extremely important to investors, but companies are afraid to disclose it, because they may face a lawsuit if they fail to predict the future with total accuracy. The conference report prevents companies from being sued for forward-looking statements when they make it clear that they are talking about the future and accompany their statements with cautionary language. Statements that meet this statutory test should not be the basis of a lawsuit if intervening events make them inaccurate; the conference report makes it clear that the legislation imposes no duty to update projections.

The conference report also clarifies that a plaintiff will have to prove a defendant had actual knowledge of the falsity of a forward-looking statement before there will be liability.

The conference report also amends the Racketeer Influenced and Corrupt Organization Act to prevent the unnecessary and unfair threat of RICO charges when a case involves conduct that should be prosecuted, instead, under the Federal securities laws.

The legislation also gives the SEC new authority to bring aiding and abetting cases for knowing fraud under section 10(b) of the Exchange Act, and it imposes responsibilities on auditors to detect and disclose illegal activity they may find during an audit.

It is clear that the conference report will take major steps toward ending the kind of abusive and frivolous private securities litigation that hurts the economy and burdens individual investors. But, as I noted earlier, these hardly are radical reform.

Many of the criticisms that have been leveled at the bill stem, not from what is in the legislation, but from critics' desire to use it to change current law. For example, opponents criticize it for failing to provide a private cause of action for aiding and abetting violations of section 10(b) of the Exchange Act—but this is something the Supreme Court of the United States says the original drafters of the Exchange Act did not intend to include. It is criticized because it does not provide a longer statute of limitations for actions under section 10(b)—again, something the Supreme Court says the original drafters of the Exchange Act did not intend to include.

Mr. Speaker, this legislation may not have everything that every Member wants to see. It also may not end all unfairness and impropriety in private

securities litigation. But it offers a realistic opportunity to improve current law, to help the economy, and to protect individual investors. I submit that it is rare that one piece of legislation does this much. I urge my colleagues to vote to pass this conference report.

Mr. Speaker, I reserve the balance of my time.

Mr. MARKEY. Mr. Speaker, I yield myself 3 minutes.

Mr. Speaker, until a Supreme Court decision 18 months ago, aiding and abetting liability was the primary method through which professionals who assist securities fraud to succeed, lawyers, accountants and investment bankers, who were deemed to be responsible in defrauding investors, were made liable by aiding and abetting prosecution.

Even the Supreme Court majority recognized the need for restoration of aiding and abetting liability. In the words of Justice Kennedy, to be sure, aiding and abetting a wrongdoer ought to be actionable in certain instances. The issue, however, is not whether imposing private liability on aiders and abettors is good policy but whether aiding and abetting liability is covered by the statute.

This statute that we are debating here today has no aiding and abetting liability for those who have participated in the construction of fraud perpetrated against innocent investors.

The SEC argued, in the Supreme Court, in favor of aiding and abetting liability. Since the court decision, the SEC has urged Congress to restore aiding and abetting liability. Chairman Levitt testified that of 400 pending SEC enforcement cases, 80 to 85 rely on aiding and abetting theories of liability. Not one shred of evidence was presented before the House or the Senate that called into question the legitimacy of these SEC cases. Yet this bill would jeopardize many of them, perhaps even all of them, because it fails to codify that the SEC has authority.

The SPEAKER pro tempore. The time of the gentleman from Massachusetts [Mr. MARKEY] has expired.

Mr. MARKEY. Mr. Speaker, I do not want to call into question the Chair, but I only read three paragraphs.

The SPEAKER pro tempore. The gentleman from Massachusetts [Mr. Markey] may proceed.

Mr. MARKEY. Mr. Speaker, the bill would jeopardize many of these cases, perhaps all of them, because it fails to codify.

Now, a report in last week's National Law Journal highlighted a number of extraordinary statistics from fraud cases brought by the Government as a result of the S&L debacle. Four thousand directors or CEO's of failed S&L's or the professionals who work for them were sent to prison as a result of criminal frauds they perpetrated or assisted.

In addition, 1,500 defendants were convicted but were not sent to prison. That is one of the most extraordinary and most disturbing statistics I have

ever heard. Four thousand senior thrift executives and their key financial advisors were convicted and imprisoned for financial fraud and crimes.

Mr. Speaker, I reserve the balance of my time.

Mr. BLILEY. Mr. Speaker, I yield 4 minutes to the gentleman from Texas [Mr. FIELDS], the chairman of the subcommittee.

(Mr. FIELDS of Texas asked and was given permission to revise and extend his remarks.)

Mr. FIELDS of Texas. Mr. Speaker, in recent years, U.S. companies, particularly high technology companies, have become the target of speculative, abusive securities litigation which enriches lawyers at the expense of shareholders and the economy.

Mr. Speaker, as the Subcommittee on Telecommunications and Finance learned over the past year, abusive securities lawsuits are brought by a relatively small number of lawyers specializing in initiating this type of litigation. In many cases, the plaintiffs are investors who own only a few shares of the defendant corporation. And the corporations are frequently high technology companies whose share price volatility precipitates lawsuits. The plaintiffs do not need to allege any specific fraud.

□ 1200

Indeed, many of these suits are brought only because the market price on the securities dropped. The plaintiffs' attorneys name as individual defendants the officers and directors of the corporation and proceed to engulf management in a time-consuming and costly fishing expedition for the alleged fraud.

When you ask the question, what drives these lawsuits, the answer is clear. Even when a company committed no fraud, indeed no negligence, there is still the remote possibility of huge jury verdicts, not to mention the cost of litigation. In the face of this exposure, defendant companies inevitably settle these suits rather than go to trial. I believe lawyers understand the coercive psychology of the system and many of these suits are filed without just cause and solely for the purpose of extracting judgments and settlements.

Mr. Speaker, there are approximately 300 securities lawsuits filed each year. Nearly 93 percent of those suits settle for an average of \$8.6 million apiece. That makes this a \$2.4 billion industry, with a third of the amount plus expenses going to the lawyers. This is not a small cottage industry. As a result of the perverse economics driving these cases, meritless cases settle for far too much and meritorious cases settle for far too little.

Mr. Speaker, one of the most compelling statistics for reform I believe comes from Silicon Valley, CA, where one out of every two companies have been the subject of a 10(b)(5) securities class action. Every single one of the top 10 companies in Silicon Valley, and

these are world class multinational competitors like Hewlett Packard, Intel, Sun Microsystems, and Apple Computer, have been accused of violating the antifraud provisions of the securities laws. Companies in Texas, like Compaq Computer and Texas Instruments, are equally as vulnerable to these kinds of suits.

Mr. Speaker, the current securities litigation system is seriously impacting the competitiveness and productivity of America's technology companies. This is also affecting our ability to create jobs.

In summary, I believe we have demonstrated that the current securities litigation system promotes meritless litigation, shortchanges investors, and costs jobs.

Mr. Speaker, I want to commend the gentleman from Virginia [Mr. BLILEY], our chairman, for moving this forward in an expeditious manner. I would also be remiss if I did not congratulate the gentleman from California [Mr. COX], and the gentleman from Louisiana [Mr. TAUZIN] for the hours that they have put in, not only in this session but in previous sessions, in advancing what I think is a very important and substantial reform in our legal system.

The SPEAKER pro tempore. The Chair yields the gentleman from Massachusetts [Mr. MARKEY] an additional 1½ minutes, due to a little conflict up here.

Mr. MARKEY. Mr. Speaker, I yield 4 minutes to the gentleman from Michigan [Mr. DINGELL].

(Mr. DINGELL asked and was given permission to revise and extend his remarks.)

Mr. DINGELL. Mr. Speaker, this bill is a scandalous piece of legislation. It was conceived in the most scandalous and outrageous abuse of the legislative and conference process that I have ever seen in this institution. It sanctifies the most outrageous kind of fraud and misbehavior imaginable. It is a bill that would be beloved by Mike Milken, Ivan Boesky, and Charles Keating. And, by the great scoundrels of the past like Sam Insul and the greatest of all, Mr. Ponzi.

It will permit the skinning of widows and orphans. It will permit raids on pension funds, on the funds at colleges, universities, and churches, and on the moneys held and managed by local governments and States for their pensions and other citizens. It undoes over 60 years of law that has enabled investors to take action to protect themselves against the worst kinds of misbehavior.

How does it do this, DINGELL, you may ask. Well, I am going to tell you.

The safe-harbor provision provides civil immunity in private enforcement actions for any "untrue—forward-looking—statement of material fact"—written or oral—so long as that predictive statement is "accompanied by meaningful cautionary statements." Furthermore, the provision expressly eliminates the duty of corporate insiders to update their predictions if subsequent events make them false.

In a word, this conference report therefore immunizes deliberate fraud. And, in a very sad day indeed, on November 15, 1995, the SEC—reportedly under threats to have its budget cut—wrote a letter to the Senate saying not that SEC endorsed the provision, but only indicating withdrawal of opposition this provision, representing the first time in that agency's history, that I am aware of, that it has supported a national policy that immunizes deliberate fraud from civil liability.

The conference report places highly burdensome pleading requirements on plaintiffs in securities cases, and deletes a key amendment proposed by Senator SPECTER and adopted by the Senate, which clarified that the heightened pleading standard could be satisfied by evidence of a defendant's motive and opportunity to commit securities fraud. The conference report also contains an automatic discovery stay.

The bill's elevated pleading standard for scienter—i.e., the plaintiff must "state with particularity facts giving rise to a strong inference that the defendant acted with the required state of mind"—will require average investors without discovery to know and state facts in pleadings that are only knowable after discovery.

The conference report does not restore aiding and abetting liability in private suits nor does it provide a reasonable extension of the statute of limitations.

The conference report imposes a one-sided loser pays rule on plaintiffs which would require plaintiffs to pay the entire legal fees and expenses of corporate defendants, while a defendant who files spurious motions and pleadings would have to pay only reasonable attorney fees and other expenses incurred as a direct result of the violation.

The conference report establishes an unconscionable discretionary bond requirement to cover the payment of fees and expenses, with no limitations on the amount of the bond. Asking a person who may have already lost their life savings to put up as collateral their house or money set aside for the college education of their children in a meritorious case is just plain wrong.

This is a blue print for fraud: company executives can issue false predictive statements, promising investors anything they want, as long as they dress them up with cautionary statements. Investors can sue in the case of egregious, deliberate fraud, but they would have to meet the new pleading standards for intent, and the bill does not let them engage in discovery to get the facts. Moreover, if the fraudsters can hide the facts for 36 months, they are home free. And you may get stuck with the company's entire legal bill.

Ooops! I almost forgot to tell you about the holy water that we sprinkled on accountants, lawyers, and investment bankers. The bill's failure to re-

store aiding and abetting liability, coupled with the bill's proportionate liability provision, means that the company can go bankrupt and the executives can hide their ill gotten gains in an offshore bank account and investors are out of luck.

Accountants, lawyers, and investment bankers can look the other way, and engage in reckless behavior that assists the fraud, and not have to pay.

In the Keating case, for example, of some \$240 million that was ultimately recovered by some 23,000 innocent investors, about 70 percent, or \$168 million, was recovered against unscrupulous accountants, lawyers and brokers who were accessories to the fraud. Now, these rascals would be immunized under the law as a result of our failure to take this opportunity to restore aiding and abetting liability. These investors, totally devoid of any culpability, absolutely innocent, many of them elderly retirees, if this were the law at the time they brought their action, would have recovered some \$16 million as opposed to the \$240 million that they actually lost and recovered.

This is an outrageous piece of legislation. It has been vigorously and strongly opposed by the well-respected Money magazine in four consecutive issues and by local and national newspaper editorials across the country. It is also opposed by the U.S. Conference of Mayors and the National League of Cities, the Fraternal Order of Police, the International Association of Firefighters, State Attorneys General, the Association of the Bar of the City of New York, the Consumer Federation of America, and the National Council of Individual Investors. I am including representative samples of their commentaries at the conclusion of my remarks for the RECORD.

In closing, I say shame on the Congress for considering it. I say, greater shame upon us if we pass it and shame on anybody who has anything to do with it. If this abomination passes the Congress, I strongly urge President Clinton to veto this bill and send it back with instructions for us to craft balanced, bipartisan legislation that ends frivolous lawsuits without sanctifying fraud and undermining the legal rights of wronged investors.

I include for the RECORD the following material.

[From the Miami Herald, Nov. 14, 1995]

LIARS' BILL OF RIGHTS?

While most of the country is paying attention to the feud over the federal budget, a sinister piece of legislation is making its way through Congress unnoticed. This bill lets companies report false information to investors. That's right, it essentially licenses fraud. It has passed both houses in slightly different forms. A compromise bill will be written soon. If it passes, President Clinton ought to slay it in its tracks.

This bill is a story of good intentions. Some companies have been plagued by frivolous lawsuits from investors who aren't happy with the company's performance. The

investor allege, in essence, that the company had forecast good results and then didn't deliver. That, say the plaintiffs, constitutes fraud.

Well, often it doesn't. Investing has risks, including market downturns. When investors sue over mere bad luck, they cost companies money, clog courts, and drain profits from other investors.

Trouble is, by trying to stop this abuse, Congress mistook a simple answer for the right answer. Its solution, in plain terms, was to declare virtually all promises by all companies to be safe from legal challenge. Under this "remedy," company executives now can promise investors anything they like, with not so much as a nod to reality.

They can't legally lie about the past, but if their claims are "forward-looking," they can promise you the moon to get you to invest, and no one can sue them later for being misleading.

Well, almost no one. The bill would allow legal action in the case of egregious, deliberate fraud, but you'd have to prove that it was intentional. And you'd have just three years to discover the fraud and furnish your proof.

It's rare enough to prove outright intent under the best circumstances, but under this bill, if executives can stiff-arm you for just 36 months (not a big challenge), they'd be home free. And then—in another hair-raising provision of the bill—you'd be stuck for the company's entire legal bill. Facing such a risk, no small investor, no matter how badly cheated, would ever dare sue.

This bill evidently struck many members of Congress as a simple answer to a nagging problem. It's nothing of the kind. The problem is real enough, but its solution isn't simple. And it certainly doesn't reside in a law authorizing phony statements to investors.

President Clinton should veto this blunder. Then, when the fight over the budget is over, Congress can take time to think up a more rational solution to the problem.

[From the Houston Chronicle, Nov. 17, 1995]

INSECURITIES

In testimony on a bill to curtail frivolous securities fraud lawsuits, Sen. Robert Bennett, R-Utah, recalled that his father once, as a director of a mutual fund board, had been sued for looting assets, as directors had given themselves a raise (in tandem with increased profits). The suit was settled for \$100,000, as had been the case each year the attorney had filed the identical lawsuit. The meritless suit would have been too costly to litigate, the senior Bennett was told.

Those familiar with the world of securities litigation know these scenarios are not uncommon. Such lawsuits are infuriating, harmful to business and investors alike, and they deserve congressional attention to stamp them out.

Charged with enacting laws to douse brush fires in the tort system, Congress instead wants to burn the system to the ground.

Earlier this year, lawmakers passed bills in the House and Senate that threatened to cripple the ability of even legitimate plaintiffs to recoup money swindled by unscrupulous corporate executives, lawyers and accountants. More recently, in meetings to which bill opponents said they were not invited, members of Congress and lobbyists worked out a compromise that is as deadly to investor rights as the original bills.

The compromise guarantees small investors, defined as having a net worth less than \$200,000, full recovery if they lose more than 10 percent of their assets in a securities fraud. But why should a person who likely saved over most of his or her life have to lose so much money before being entitled to full

compensation in court? And, while \$200,000 may sound generous, many Americans in many areas of the country would surpass that amount based solely on their home value.

The compromise allows the Securities and Exchange Commission to sanction lawyers and accountants who knew of fraud and did nothing to stop it, but it does not allow defrauded investors to sue them. That is inadequate redress and promises to shift the burden of policing such cases entirely onto the government.

Proponents brag that the compromise offers no lawsuit protection to companies whose "forward-looking statements" contain knowingly false information and do not contain detailed warnings. What comfort can be gained from such statements if inclusion of a "cautionary statement" nullifies investor protections?

Consumer groups oppose the compromise for the burdens it will place on small investors. But attorneys general of various states and associations of public finance officers also are in opposition because they fear the legislation would expose public funds, such as those invested by counties and school districts, to greater fraud risks.

Congress certainly must act against "professional plaintiffs" and "entrepreneurial attorneys" who file baseless securities fraud claims in pursuit of blackmailed settlements. But lawmakers must work harder than they have to cap lawsuit abuse without putting the life savings of small investors at risk.

[From the San Francisco Chronicle, Nov. 27, 1995]

OPENING THE DOOR TO FRAUD

If a House-Senate conference committee meeting tomorrow does not result in significant changes to legislation regarding investment fraud lawsuits, President Clinton should quickly veto the bill.

Compromise has softened some of the anti-consumer aspects of the legislation, which has the stated goal of eliminating frivolous class-action securities fraud lawsuits. But despite the worthwhile aim, the provisions of a draft conference report on HR 1058 and S 240 go far beyond curbing trivial court actions and instead would wipe out important protections against hustlers of fraudulent securities.

In a letter asking Clinton to veto the bill, San Francisco's chief administrative officer, Bill Lee, noted that the legislation would "erode investor protections in a number of ways: it fails to restore the liability of aiders and abettors of fraud for their actions; it limits many wrongdoers from providing full compensation to innocent fraud victims, by eroding joint and several liability; it could force fraud victims to pay the full legal fees of large corporate defendants if the lose; it provides a blanket shield from liability for companies that make knowingly fraudulent predictions about an investment's performance and risks; and it would preserve a short, three-year statute of limitations for bringing fraud actions, even if fraud is not discovered until after that time."

Securities fraud lawsuits are the primary means for individuals, local governments and other investors to recover losses from investment fraud—whether that fraud is related to money invested in stocks, bonds, mutual funds, individuals retirement accounts, pensions or employee benefit plans.

As the draft report stands, investors would be the losers. And their hopes of receiving convictions in suits similar to those against such well-known con men as Michael Milken and Ivan Boesky would be severely hampered.

In the name of the little guy, Clinton should not let that happen.

[From the New York Times, Nov. 30, 1995]

OVERDRAWN SECURITIES REFORM

The securities bill that Congress is about to pass addresses a nagging problem, frivolous lawsuits by investors against corporations, but in such cavalier fashion that it may end up sheltering some forms of fraud against investors. President Clinton should veto the bill and demand at least two fixes to protect truly defrauded investors.

The bill seeks with good reason to protect corporate officials who issue honest but unintentionally optimistic predictions of corporate profitability. In some past cases, opportunistic shareholders have waited for a company's stock price to fall, then sued on the grounds that their money-losing investments were based on fraudulent misrepresentations of the company's financial prospects. Their game was to use these "strike" suits to threaten companies with explosively expensive litigation in the cynical attempt to win lucrative settlements.

Such suits are a real, if infrequent, problem that can discourage responsible management from issuing information that investors ought to know. The bill would stymie these suits in part by immunizing predictions of corporate profitability that are accompanied by descriptions of important factors—like pending government regulatory action—that could cause financial predictions to provide false. But the language is ambiguous, leading critics to charge that it would protect corporate officials who knowingly issue false information. The President should ask Congress for clarification.

Some provisions of the bill would protect investors by, for example, requiring accountants to report suspected fraud. But other provisions threaten to shut off valid suits. The bill would prevent private litigants from going after lawyers and accounts for inattention that allows corporate fraud. Worse, the bill limits the authority of the Securities and Exchange Commission to sue accountants and others for aiding fraud. The bill would also provide a short statute of limitation that could easily run out before investors discover they have been victimized.

Mr. Clinton should demand that Congress extend the statute of limitations so that investors will have time to file suit after they discover fraud. He should also demand that the bill restore the S.E.C.'s full authority to sue accounts who contribute to corporate fraud. So far, Mr. Clinton has been curiously restrained. A well-targeted veto might force this bill back on the right track.

[From the Bond Buyer, Dec. 4, 1995]

SECURITIES LITIGATION REFORM: A MATTER OF PRINCIPLE

(By Craig T. Ferris)

WASHINGTON.—There are moments when an issue should be decided solely on principle, not politics.

One of those moments will occur late this week when the House and Senate are expected to send President Clinton the securities litigation reform legislation that a conference committee finalized last week.

When the bill arrives on his desk, Clinton should veto the measure on principle because it is bad legislation that could undermine investor confidence in the municipal market.

Despite a few changes from the original House and Senate bills, the final measure is still what state and local groups have termed "a bad bill that has resulted from bad House and Senate bills."

While some backers of the measure say it is needed to curb frivolous securities fraud

lawsuits, state and local representatives, plus investor groups, contend that it will hurt investors and prevent individuals, local governments, and pension plans from filing legitimate securities fraud lawsuits.

The bill is substantially flawed, particularly because it does not extend the statute of limitations for securities fraud actions and does not restore the ability of investors to sue aiders and abettors of securities fraud.

Sen. Paul Sarbanes, D-Md., raised an excellent point last Tuesday night when he told conferees that the final bill does not do enough to protect local governments that invest the money of taxpayers and retirees in securities.

"As any reader of the newspaper knows, local governments are often victims of unscrupulous brokers. These government officials want meaningful remedies if they are defrauded," Sarbanes said.

He also said 11 state attorneys general oppose the measure because they argue it would "curtail our efforts to fight securities fraud and to recover damages for our citizens if any of our state or local funds suffer losses due to fraud. In a letter, the attorneys general told Sarbanes the legislation 'is unwise public policy in light of rising securities fraud and substantial losses suffered by states and public institutions from high-risk derivatives investments.'"

These are all excellent reasons why Clinton should veto the measure. Unfortunately, politics may overshadow principle.

Clinton and the Securities and Exchange Commission are under pressure to support the measure—both from House and Senate Republicans who will have a strong say in the funding levels for the SEC and from Senate Republicans who are considering whether to confirm Clinton's two pending nominees for seats on the SEC.

Those pressures appear to be major reasons why the SEC has done little to push the conference committee to include greater protection for investors, particularly state and local governments.

But even if Clinton ignores politics and vetoes the bill, it is likely to become law anyway.

The original House and Senate bill were approved by veto-proof 329-to-99 and 70-to-29 votes, and there is every reason to believe that the final version of the legislation will be approved by both chambers by similar margins.

Despite those drawbacks, the president should stand on principle and veto the measure. It is a bad bill and it should not become law.

[From Money, September 1995]

CONGRESS AIMS AT LAWYERS AND ENDS UP SHOOTING SMALL INVESTORS IN THE BACK

[By Frank Lalli, managing editor]

Imagine a law that makes it much easier for crooks to swindle investors and far more difficult for the victims to sue to get their money back. A law so extreme that it would:

Allow executives to deliberately lie about their firm's prospects.

Prohibit investors from suing the hired guns who assist a fraudulent company, the so-called aiders and abettors, including the accountants, brokers, lawyers and bankers.

Ratify a court ruling that throws out any suit that isn't filed within three years after the fraud took place, even if no one discovers the crime until after that deadline.

And potentially force investors and their lawyers who lose a case to pay the winner's entire legal fees, if the judge later rules that the suit was not justified.

Sounds too radical to be real, doesn't it? Yet legislation that would do all this and more has passed both the House and Senate

by overwhelming margins (325 to 99 and 69 to 30). It is now headed for a conference committee where the relatively minor conflicts are expected to be ironed out.

The more responsible members of Congress who backed the effort were looking for a way to discourage frivolous securities suits. But several powerful financial lobbyists and their pals ended up putting small investors in the crosshairs instead. At a time when massive securities fraud has become one of this country's growth industries, this law would cheat victims out of whatever chance they may have of getting their money back. For instance, had this law been on the books thousands of fraud victims might not have collected anything, rather than the billions they rightfully recovered by suing the operators behind such notorious scams as Charles Keating's \$288 million savings and loan swindle, the \$460 million Towers Financial fraud and Prudential Securities more than \$1.3 billion limited partnership hustle.

Take Bill Ayers, 53, a Vietnam War vet who runs a prosperous engineering consulting firm in Crystal City, Va. In the mid-'80s, he plowed more than \$1 million into bonds issued by First Humanics, before realizing that the nursing-home chain was built on fraud. He wasn't alone. In all, at least 4,000 people invested more than \$80 million in 21 separate bond offers. Despite all that money, Humanics declared bankruptcy in 1989, and the company head, Leo ("Lee") Sutcliffe surfaced on his Florida yacht with the nursing homes' former interior decorator.

How did a sophisticated guy like Ayers get fooled? Simple, really. He relied on the company projections, which turned out to be phony, and on bond feasibility reports by Touche Ross (now Deloitte & Touche), which were shoddy. "In reality," says Ayers, "the accounting system was nonexistent." For example, in one case, Touche Ross counted closet space as patient rooms. Then to get the profit-per-room projections to actually work, at least one home slashed its daily food budget to less than \$3 per patient.

When Ayers finally caught on five years later, he led a successful class-action lawsuit that ultimately was settled for \$45 million from the accountants, lawyers and bank trustees. Sutcliffe, meanwhile, got 15 months in federal prison for mail fraud and was fined \$1 million.

"But I'd be out of luck under this new law," says Ayers. Sutcliffe's lies about the chain's profitability and the bonds' 10 percent to 14 percent yields would have been protected. His aiders and abettors, principally Touche Ross, also would have been shielded. And before Ayers could have filed the class-action claim, he and his fellow plaintiffs might have been forced to post a prohibitive multimillion-dollar bond to cover the defendants' legal fees just in case the suit was later thrown out of court. What's worse, he would not have been able to sue in any event because he did not discover the fraud within the three-year time limit; in fact, the statute of limitations would have run out on nearly every Humanics' victim. As Ayers put it: "This law will hurt the people who've already been hurt by the frauds."

So how could such misguided legislation get this far? It's an interesting tale that illustrates how thoroughly the 104th Congress has become the Lobbyists' Congress. Ironically, one of the original ideas behind this reform legislation last year was to increase the three-year statute of limitations imposed by an ill-advised Supreme Court decision. But after the Republicans swept to power, major political contributors, led by the Big Six accounting firms that are smarting over billion-dollar judgments against them in the S&L scandals, helped draft this legislation to attack what they called an

"explosion" of frivolous securities suits. They got their way, despite the lack of evidence of any such explosion. The true measure of indiscriminate litigiousness—the number of companies sued each year—has remained relatively level for the past 20 years. What's more, 80 percent of federal judges, who are largely Reagan and Bush appointees, think frivolous suits are a minor concern.

In the final analysis, this legislation, which Sen. Alfonse D'Amato (R-N.Y.), for one, has hailed as "a big win for American consumers," would actually be a grand slam for the sleaziest elements of the financial industry at the expense of ordinary investors.

To make matters worse, this law will soon be followed by other G.O.P.-backed reforms that aim to reduce the information investors get while also curtailing securities regulation. Former Securities and Exchange Commissioner Rick Roberts, a Bush appointee, says he fears these initiatives could undermine our securities markets. "If you look at the whole picture, Congress is taking away the right to bring an action if there's a financial fraud; it's [cutting] the level of information investors receive; and, third, [it] will try to slash the SEC budget so there are no public remedies," Roberts told Money's Ruth Simon. "If I was an investor, I would be getting very queasy about plugging my money into the securities market."

But the financial fat cats haven't sung yet. There is still time to stop these reckless efforts, starting with this litigation reform bill. President Clinton's counsel, Abner Mikva, told Money's Peter Keating: "I think the President would not sign it, [but] we use the word 'veto' very sparingly around here." If you would like to join Money in urging the President to veto this litigation bill, please send us your thoughts, and we will relay them with our endorsement to the President and to key congressional lawmakers. Write to: Protect Our Rights, Money, Room 32-38, Time & Life Building, Rockefeller Center, New York, N.Y. 10020; or send electronic mail to: letters@money.com.

[From MONEY Magazine, October 1995]

LET'S STOP THIS CONGRESS FROM HELPING CROOKS CHEAT INVESTORS LIKE YOU

"I never thought I would urge Bill Clinton to do anything but retire," wrote Miles W. Haupt of Poulsbo, Wash. "But please add my name to your list of people requesting a presidential veto of the small investor rip-off bill you wrote about in September." Haupt is just one of more than 400 MONEY readers who have joined us in urging the President to veto the litigation reform legislation steaming through Congress. This misguided law would, in fact, help white-collar criminals get away with cheating investors. As I write this on Sept. 1, we are receiving 60 letters of support a day; we've gotten a grand total of six in opposition.

The tone of the letters runs from dismay to disgust. The largest number argue that the legislation would undermine confidence in the securities markets. For example, Lester K. Smith of De Kalb, Ill. wrote: "For many years the government has said that Americans do not save and invest enough. Now they want to take away most of the legal safeguards which allow us to save and invest without fear of being cheated." Anastasia R. Touzet of Flora, Miss. concluded: "Are we going back to having to buy gold and silver coins and burying them in the backyard? Is this the America everybody wants? I don't."

Others focused on the special interests that helped draft the bills, with Elizabeth J. Granfield of New Canaan, Conn., for one, mocking the "FOR SALE sign on the congressional lawn." Bill Follek echoed that

theme on the Internet: "Congress is trying to flat out legalize white-collar crime; that's what this Congress means by reform."

But the angriest responses by far came from Republicans denouncing their own party for pushing these bills. "I am a 64-year-old lifelong Republican," wrote John A. Cline of Virginia Beach, "but I'm fed up with the party's assault on the public. These acts will backfire. I very well may vote for a third person or even for 'what's his name' who's in there now." Another lifelong Republican, 78-year-old George W. Humm of New Richmond, Ohio, who spent 45 years in the securities business and now arbitrates brokerage disputes, said he was appalled and only hoped Clinton "has the guts to veto this monstrous bill."

Also, Thomas Denzler of New York City pointed out that "tort reform is not necessarily a bad idea" and then quickly added: "But in the area of securities, it is a stupid and venal idea. Shame on Robert Dole and Newt Gingrich." And Donald J. Scott of Henderson, Nev. summed up the tenor of the outcry in one sentence: "The Contract with America is going down the drain."

The legislation that swept through Congress this summer by overwhelming margins (325-99 and 69-30) would do four things:

Allow executives to deliberately lie about their firm's prospects.

Stop investors from suing hired guns who assist fraudulent firms, including accountants, lawyers, brokers and bankers.

Give investors just three years to sue, even if the fraud isn't discovered until after that statute of limitations expires.

Make investors who lose a case potentially liable for the winner's entire legal fees.

As we noted in last month's column, lawmakers originally intended to curb frivolous securities suits. But those good intentions got picked clean by powerful lobbyists, led by major accounting firms, who came swooping down on the bills like hungry crows. The accounting firms and their pals want to protect their wallets after being forced to pay billions in fines and settlements in recent years for their part in various scams—from the savings and loan scandals to the notorious MiniScribe swindle.

Operating through various political action committees and other corporate fund-raising efforts, the major accounting firms and their lobbyists contributed well over \$3.3 million to legislators' campaigns—50% more than they gave in '92. In February, for instance, one so-called grass-roots operation sent out software that let members customize letters to selected lawmakers in "a minute or two." In all, a quite sophisticated and effective campaign.

The two bills—HR 1058 and S 240—are now headed for a conference committee to iron out minor conflicts. So at this point, the only way this legislation will get stopped is if the President vetoes it when it hits his desk, perhaps as early as this month. (For more on other ill-advised securities reforms, see "How Washington Could Tip the Scales Against Investors" on page 122.)

You can still make your voice heard. Send your thoughts to us; we will relay them to the President and key lawmakers. Write: Protect Our Rights, Money, Room 32-38, Time & Life Building, Rockefeller Center, New York, N.Y. 10020; send E-mail to: letters@money.com.

[From Money Magazine, November 1995]

YOUR 1,000 LETTERS OF PROTEST MAY STOP THIS CONGRESS FROM JEOPARDIZING INVESTORS

You got through to the President. More than 1,000 money readers so far have written us urging President Clinton to veto this Congress' misguided securities litigation reform,

as this column proposed in September and October. Bette Hammer of North Port, Fla. summed up your message: "These bills are legalizing white-collar crime." As we said we would, we have been forwarding every one of your letters to the President and to key Washington lawmakers.

What will happen? Will the President veto the legislation? Will lawmakers rework it into an acceptable form? Or will the President back off to win favor with powerful business interests, particularly those in California's Silicon Valley that he may need so he can get re-elected?

There were no clear answers as we wrote this column in early October. But this much we do know: Your deep disgust with this so-called reform is having a profound impact in Washington. One source told Money Washington bureau chief Tereas Tritch: "To say 'Money magazine' has become the shorthand phrase for all the editorial opposition to these bills." Furthermore, as we were preparing this column, the President sent us the letter here expressing his serious objections to the proposed law. It concludes with a promise: "As we seek to develop thoughtful, balanced reforms to our nation's securities laws, I will keep your readers' views in mind."

He would be wise to do that. There are a lot of votes at stake. Take M.L. and A.H. Spratley of Chatsworth, Calif. They describe themselves as "registered Republican(s) for over 40 years who have never voted for a Democrat . . . but now have no choice but to vote for Mr. Clinton in 1996." That is, unless he fails to "veto the outrageous bills." A politically savvy source summed up the situation this way: "If the President vetoes this, he may win the vote of the common man, but he may lose the money and support of high-tech that he needs to win in California."

Whatever the outcome, however, the struggle over the securities litigation reform bills, H.R. 1058 and S. 240, offers a picture-window view of how laws are being created by the lobbyists and for the lobbyists in this 104th Congress. And, more positively, it also provides a revealing peek at the potentially enormous power that ordinary people have when they find a way to amplify their voices, as they are doing on this issue.

A little background: Earlier this year, following a multimillion-dollar lobbying effort by accountant, high-tech and securities interests, the House and Senate passed differing versions of securities litigation reform, each with overwhelming bipartisan support (325 to 99, and 69 to 30). Lawmakers said they wanted to discourage frivolous securities suits. That is a fine goal. But as one moderating amendment after another was voted down, the legislation the Republican majority and the lobbyists produced went far beyond curbing meritless lawsuits to all but legalizing securities fraud. For example, though the Senate bill would have similar effects, the House bill would definitely undercut investors in at least two specific ways:

Defrauded investors could no longer collect damages from company executives who tricked them out of their money by deliberately lying about their firms' prospects.

And if investors sued and lost, the judge could more easily force them and their lawyers to pay the winners' entire legal fees. As a consequence, a number of legitimate cases would never get filed. Sen. Arlen Specter (R-Pa.), for one, foresees "a profoundly chilling effect on litigation brought under the securities acts."

In addition, both bills failed to reinstate fundamental investor protections stripped away by two recent, ill-advised Supreme Court decisions:

Defrauded investors can no longer sue hired guns who assist a dishonest company,

the firm's so-called aiders and abettors, including accountants, brokers, lawyers and bankers.

And, worse, investors cannot sue at all if they fail to file within three years after the fraud occurs, even when the crime is not discovered until after the deadline.

In his letter to Money, the President clearly rejects the House version, which is more extreme than the Senate alternative. "I could not support that bill," he writes. But he holds out hope that the Senate bill could get improved enough for him to sign it into law. The horse-trading would normally be done by a hand-picked committee of bipartisan lawmakers from both houses. But partly because of your 1,000 letters of protest, the Republicans calling the procedural shots are stalling on convening such a House-Senate conference committee.

Key Republicans, and some nervous lobbyists, fear that House conservatives, notably Chris Cox (R-Calif.), would insist on preserving a few of the House's most extreme provisions in the committee's final compromise bill. If that happened, odds would soar that the President would veto the bill, and that many Senate Democrats and a few Republicans who voted for the Senate version would switch over and sustain the veto. Result: No securities litigation reform at all.

To avoid that scenario, Senate Republicans are trying to convince House colleagues to accept the current Senate version as the final bill. The President might veto that one also. But chances are, he would not do that unless he was sure enough Senate Democrats who supported that version—including Massachusetts' Edward Kennedy, New Jersey's Bill Bradley and West Virginia's Jay Rockefeller—were willing to flip-flop to sustain his veto.

You can bet that the lobbyists who have been pressing for years to protect their corporate clients from being sued for fraud will have a lot to say about the Republican tactics and the outcome. MONEY has learned that the big accountants, who were shaken by the billion-dollar judgments against them in the savings and loan scandal, would be more than satisfied to get today's Senate bill. Securities industry lobbyists would go along with it too; their hot-button issue is retaining the truncated three-year statute of limitations on fraud suits. Fortunately for them, Sen. Alfonse D'Amato (R-N.Y.), who has accepted more than \$800,000 in campaign contributions since 1989 from the securities industry, deleted a provision that would have extended the time limit to five years. People don't call him The Senator from Wall Street for nothing.

However, only lobbying interests are demanding the House bill's bullet-proof protection for lying executives. The Senate language, though also ludicrously lax, does at least allow for executives to get in trouble for statements "knowingly made with the purpose and actual intent of misleading investors." The burden would be on the investors, though; they would have to prove that the company official actually intended to defraud them, rather than, say, simply tried to entice them with recklessly inflated claims. If the Senate version becomes law, Sen. Paul Sarbanes (D-Md) says, "A lot of very fast games by some very fast artists are going to be played on the investing public." Still, a Washington source says: "Silicon Valley is insatiable. Unless they're protected from fraud, they won't go along."

So what will the President do if today's Senate bill lands on his desk as the final legislation? Or if he gets an only slightly altered version?

We can only hope that he stands up for small investors like you by vetoing it. Anything less could undermine the public's confidence in the financial markets. Why? Because while Congress is trying to slam the

courthouse door shut, it is also threatening to force securities cops off the beat. Late in September, for example, the Senate voted to cut the Securities and Exchange Commission's budget by 10%, even though the reduction might well compel the SEC to lay off enforcement agents.

What should you do? Obviously, if you believe as we do that today's securities litigation legislation foolishly sacrifices investors' interests on the altar of radical reform, keep writing to us. We will relay your thoughts to the key lawmakers and to the President.

Write to: Protect Our Rights. MONEY, Room 32-28, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Send a fax to: 212-522-0119. Or send E/mail to: letters@moneymag.com.

[From Money Magazine, December 1995]

NOW ONLY CLINTON CAN STOP CONGRESS FROM HURTING SMALL INVESTORS LIKE YOU

The debate over Congress' reckless securities litigation reform has come down to this question: Will President Clinton decide to protect investors, or will he give companies a license to defraud shareholders?

Late in October, Republican congressional staffers agreed on a so-called compromise version of the misguided House and Senate bills. Unfortunately, the new bill jeopardizes small investors in several ways. Yet it will likely soon be sent to Clinton for his signature. The President should not sign it. He should veto it. Here's why:

The bill helps executives get away with lying. Essentially, lying executives get two escape hatches. The bill protects them if, say, they simply call their phony earnings forecast a forward-looking statement and add some cautionary boiler-plate language. In addition, if they fail to do that and an investor sues, the plaintiffs still have to prove the executives actually knew the statement was untrue when they issued it, an extremely difficult standard of proof. Furthermore, if executives later learn that their original forecast was false, the bill specifically says they have no obligation to retract or correct it.

High-tech executives, particularly those in California's Silicon Valley, have lobbied relentlessly for this broad protection. As one congressional source told Money's Washington, D.C. bureau chief Teresa Tritch: "High-tech execs want immunity from liability when they lie." Keep that point in mind the next time your broker calls pitching some high-tech stock based on the corporation's optimistic predictions.

Investors who sue and lose could be forced to pay the winner's court costs. The idea is to discourage frivolous lawsuits. But this bill is overkill. For example, if a judge ruled that just one of many counts in your complaint was baseless, you could have to pay the defendant firm's entire legal costs. In addition, the judge can require plaintiffs in a class action to put up a bond at any time covering the defendant's legal fees just in case they eventually lose. The result: Legitimate lawsuits will not get filed.

Even accountants who okay fraudulent books will get protection. Accountants who are reckless, as opposed to being co-conspirators, would face only limited liability. What's more, new language opens the way for the U.S. Supreme Court to let such practitioners off the hook entirely. If such a lax standard became the law of the land, the accounting profession's fiduciary responsibility to investors and clients alike would be reduced to a sick joke.

Moreover, the bill fails to re-establish an investor's right to sue hired guns, such as accountants, lawyers and bankers who assist dishonest companies. And it neglects to

lengthen the tight three-year time limit investors now have to discover a fraud and sue.

Knowledgeable sources say the White House is weighing the bill's political consequences, and business interests are pressing him hard to sign it. "The President wants the good will of Silicon Valley," says one source. "Without California, Clinton is nowhere."

We think the President should focus on a higher concern. Our readers sent more than 1,500 letters in support of our past three editorials denouncing this legislation. As that mail attests, this bill will undermine the public's confidence in our financial markets. And without that confidence, this country is nowhere.

FRATERNAL ORDER OF POLICE, NATIONAL LEGISLATIVE PROGRAM,
Washington, DC, November 30, 1995.

Hon. JOHN D. DINGELL,
U.S. House of Representatives
2328 Rayburn House Office Building
Washington, D.C. 20515-2216

DEAR CONGRESSMAN DINGELL: The attached letter to President Clinton reflects our strong opposition to the Securities Litigation Reform Act (S240/HR1058).

While the letter urges the President to veto the bill, we haven't discarded the possibility that Congress will do the right thing—that is, to protect investors from fraud, and, where fraud occurs, protect the rights of investors to seek redress.

When a citizen needs protection, public safety personnel are there. On behalf of the 270,000 rank and file police officers who belong to the Fraternal Order of Police, we ask for your help, and your protection, on this critically important legislative issue.

Sincerely,

GILBERT G. GALLEGOS,
National President,
Fraternal Order of Police.

FRATERNAL ORDER OF POLICE, NATIONAL LEGISLATIVE PROGRAM,
Washington, DC, November 29, 1995.

Hon. WILLIAM JEFFERSON CLINTON,
President of the United States,
Washington, DC.

DEAR PRESIDENT CLINTON: On behalf National the Fraternal Order of Police, I urge you to veto the "Securities Litigation Reform Act" (HR1058/S240). The recently released draft of the House/Senate conference report clearly reflects a dramatic reduction in the ability of private, institutional and government investors to seek redress when victimized by investor fraud.

As a matter of fact, the single most significant result of this legislation would be to create a privileged class of criminals, in that it virtually immunizes lawyers, brokers, accountants and their accomplices from civil liability in cases of securities fraud.

This bad end is reached because of several provisions of the legislation: first, it fails to restore the liability of aiders and abettors of fraud for their actions; second, it limits wrongdoers from providing full compensation to victims of fraud by eroding joint and several liability; third, it could force fraud victims to pay the full legal fees of corporate defendants if the defrauded party loses; and, finally, it retains the short three year statute of limitations for bringing fraud actions, even in cases where the fraud is not discovered until after three years has elapsed.

Mr. President, our 270,000 members stand with you in your commitment to a war on crime; the men and women of the F.O.P. are the foot soldiers in that war. On their behalf, I urge you to reject a bill which would make it less risky for white collar criminals to steal from police pension funds while the police are risking their lives against violent criminals.

Please veto HR1058/S240.

Sincerely,

GILBERT G. GALLEGOS,
National President,
Fraternal Order of Police.

AMERICAN FEDERATION OF LABOR
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,

Washington, DC, November 29, 1995.

DEAR REPRESENTATIVE: The AFL-CIO opposes the conference agreement on H.R. 1058, the Securities Litigation Reform Act of 1995. The conference agreement significantly weakens the ability of stockholders and pension plans to successfully sue companies which use fraudulent information in forward-looking statements that project economic growth and earnings. There is a new "safe harbor" provision in this conference agreement that allows evidence of misleading economic information to be discounted in court if it is accompanied by "appropriate cautionary language."

The AFL-CIO believes this compromise will vastly increase the difficulties that investors and pension plans would have in recovering economic losses. Similarly, the joint and several liability provisions in this bill provide added, and unwarranted, protection for unscrupulous companies, stockbrokers, accountants and lawyers.

In short, this bill tips the scales of justice in favor of the companies and at the expense of stockholders and pension plans. Both of these latter groups are forced to rely exclusively on information provided by these companies when evaluating a stock, but this information would not be able to be used in court to recover economic damages for misleading information.

The Congress should reject the conference agreement on H.R. 1058.

Sincerely,

PEGGY TAYLOR,
Director, Department of Legislation.

NATIONAL COUNCIL OF
INDIVIDUAL INVESTORS,

Washington, DC, November 27, 1995.

Hon. WILLIAM J. CLINTON,
President of the United States,
The White House, Washington, DC.

DEAR MR. PRESIDENT: We are writing to express our opposition to the recent draft conference report on the Securities Litigation Reform legislation (H.R. 1058/S. 240). We share the concerns of the bills' sponsors that truly frivolous lawsuits harm all Americans. We believe the framework for securities litigation should be improved to more adequately protect the interests of individual investors.

Unfortunately, the draft conference report fails to treat the American investor fairly. For example, as currently drafted, the bill would have cost the victims of the Keating savings and loan fraud over \$200 million more than they otherwise lost. Of particular concern to us are the failure to increase the statute of limitations in securities fraud cases, the "safe harbor" provisions that reduce the standards for accuracy in forward looking statements, the "aiding and abetting" provision which limits investors' ability to recover fraud-created losses, and the "most adequate plaintiff" provision naming the largest investor to be the plaintiff.

The National Council of Individual Investors (NCII) is an independent, non-profit membership organization of individual investors established to help them improve their investment performance through education and advocacy.

The fact that the draft conference report does not fairly balance industry concerns with the needs of investors is best demonstrated by its failure to extend the statute

of limitations. Specifically, the draft conference report ignores entirely the devastating practical effects of the U.S. Supreme Court's 1991 *Lampf* decision. Although the Senate bill as introduced included a provision to lengthen the statute of limitations for investors to file securities fraud actions from three years to five years, this provision was dropped.

The result is that defrauded investors will continue to be forced to file suit for redress within one year after discovering the fraud, but in no case more than three years after the fraud was committed. Virtually every law enforcement official—including the SEC and state securities administrators—supports a longer limitation period. The failure to extend the limitation period will make it virtually impossible for defrauded investors to recover in cases of sophisticated and complex frauds that easily can remain concealed for many years. For example, the current statute of limitations for federal cases had to be waived in the billion dollar fraud case against Prudential Securities, Inc. to provide redress for the tens of thousands of victims of securities fraud.

Also of grave concern to us is the draft conference report's safe harbor for forward looking statements. Incredibly, the conference report prevents investors from recovering losses created by reckless and even deliberately fraudulent statements (including oral statements), so long as the perpetrators accompany the fraudulent statements with "cautionary" language saying actual results "may differ." Supporters of the expanded safe harbor claim that it will result in an increased flow of market information. We strongly favor increased investor access to information that is truthful. Obviously however, investors are harmed, not helped, by inaccurate information.

Moreover, in a radical departure from existing law, the draft conference report undermines companies' well-established "duty to update" information on their performances. Under this doctrine, even if a statement or prediction is true when made, there is a duty to correct such a statement if it becomes materially misleading in light of later events. The conference report takes language from the House bill that was not in the Senate bill stating that corporate insiders have no duty to update their predictions even if they turn out to be false. Forcing investors to rely on information known to be false is clearly unfair.

Investors also need effective remedies when they become victims of fraud. Particularly when swindlers have bankrupted a company, investors must be able to look to those who facilitated the fraud for compensation. Here again, the draft conference report fails to protect individual investors. Instead, it protects those who "aid and abet" frauds from civil liability by letting the U.S. Supreme Court's decision in the *Central Bank* case stand and from SEC action when their conduct is reckless.

We favor higher standards of ethics for those professionals on whom investors rely for information and counsel. Unfortunately, the draft conference report lowers those standards and, by doing so, reduces the likelihood that investors will have effective recourse when they are victims of fraud.

Finally, the conference report draft undermines the rights of individual investors, particularly small ones, in class action suits. Under current law, the court may name any member of a class, to be a representative of the class, regardless of whether he or she lost \$1,000 or \$1,000,000. The draft conference report includes a provision from the Senate bill defining the "most adequate plaintiff" as the plaintiff with the "largest financial interest" in the case. This provision com-

promises the rights of individual investors by requiring the court to appoint the largest investor, which in many instances will be an institutional investor, whose interests may differ dramatically from the small individual investor. For example, the largest investor may be able to accept settlements with less than full recoveries or may be more concerned with maintaining good relations with corporate defendants.

In the interest of protecting individual investors from securities fraud, protecting the capital markets from inaccurate information, and protecting the right to redress for small investors, we strongly urge you to oppose, and if necessary, veto this legislation.

Sincerely,

GERRI DETWEILER,
Policy Director.

THE ASSOCIATION OF THE BAR
OF THE CITY OF NEW YORK,
New York, NY, November 15, 1995.

The PRESIDENT,
The White House,
Washington, DC.

DEAR MR. PRESIDENT: We are writing on behalf of the Association of the Bar of the City of New York to urge that certain changes be made in the proposed "Private Securities Litigation Reform Act of 1995", as it currently appears in the form of a Draft Conference Report dated October 23, 1995.

The Association's Committee on Securities Regulation and Committee on Federal Courts have studied intensively the proposed legislation in its various versions, have submitted detailed reports to Committees of both the House and Senate,¹ and have testified before both the House and Senate subcommittees. There is much about the proposed legislation that is commendable. It takes significant steps to redress abuses identified by Congress, including prohibition of the payment of referral fees to brokers, of the making of bonus payments to individual plaintiffs, and of the payment of attorneys' fees from SEC disgorgement funds. Our prior reports recommended these steps and also supported the enhanced disclosure of settlement terms to class members now contained in Section 102 and the proportionate liability concept contained in Section 202. The Association opposed other proposals (e.g., "loser pays" provisions, provisions modifying the fraud on the market theory, and provisions redefining the recklessness scienter standard) that were wisely deleted from the proposed legislation.

Nevertheless, the proposed legislation should not become law unless certain provisions are changed: certain provisions relating to forward-looking statements that are fundamentally inconsistent with the objectives of the securities laws and the interests of investors, and other provisions relating to Rule 11 of the Federal Rules of Civil Procedure that would be even more onerous than a prior version of Rule 11 that was found to be unworkable and an unreasonable burden on an already burdened civil justice system, and that reflect a lack of balance in certain respects. In addition, if the foregoing changes are made, there are certain other provisions of the proposed legislation that we believe should be changed in order to improve the quality of the bill.

PROVISIONS THAT REQUIRE CHANGE

Safe Harbor for Forward-Looking Statements

The safe harbor provision is at the heart of our concern about the proposed legislation.

¹ "Report on Private Securities Litigation Reform Legislation" (S. 976, the Dodd-Domenici Bill), the Record of the Association of the Bar of the City of New York (the "Record"), Vol. 50, No. 1, Jan/Feb 1995 and "Report on Title II of H.R. 10 (HR 1058) 'Reform of Private Securities Litigation,'" The Record, Vol. 50, No. 5, June, 1995.

The proposed statutory language, while superficially appearing to track the concepts and standards of the leading cases in this field, in fact radically departs from them and could immunize artfully packaged and intentional misstatements and omissions of known facts.

Existing law distinguishes between projections, expressions of belief and other "soft" information, and statements of existing facts. The former are protected by the "bespeaks caution" doctrine if they are sufficiently hedged with concrete warnings tailored to the uncertainties that affect the outcome predicted. But a knowingly false statement or omission of material facts known today would not be protected by hedging language. For example, a prediction about the future success of a new drug could be protected by the bespeaks caution doctrine if the uncertainties that attend the development and introduction of new drugs are adequately described. But a failure to disclose that the company's tests to date were already known to have raised substantial questions about the drug's safety or efficacy would not be protected by cautionary language about the necessity and difficulty of securing FDA approval.

The proposed legislation does not reflect this distinction between statements about or omissions of currently existing facts and projections and other soft information. Its definition of "forward-looking statement" now covers any "statement of the assumptions underlying or relating to [a projection or other forward-looking statement] . . ." [proposed Section 13A(i) of the 1933 Act]. Assuming that the standards for protection discussed in the next paragraph are met, even a knowingly false statement of an assumption would not give rise to liability. And even an omission to state, for example, the results of the company's testing would not give rise to liability (again, assuming the standards are met) because the proposed legislation protects any "omission of a material fact . . . with respect to any forward-looking statement . . ." [proposed Section 13A(c)(1)(A) of the 1933 Act].

Proposed Section 13A(c)(1) of the 1933 Act provides that a defendant is not liable with respect to a forward-looking statement if and to the extent that either of the following occur:

1. The forward-looking statement is identified as such and "is accompanied by meaningful cautionary statements identifying substantive factors that could cause actual results to differ materially from those projected in the forward-looking statement." or

2. The plaintiff fails to prove that the defendant (or an officer of a defendant corporation) had "actual knowledge . . . that it was an untrue statement of a material fact or omission of a material fact. . . ."

Accordingly, under the proposed legislation, even if the plaintiff proves that the statement or omission of a currently existing material fact was known to be false, the existence of cautionary language would be enough to protect that knowing falsehood.

Protecting knowingly false statements or omissions of material existing facts is not consistent with the purposes of the federal securities laws and encourages exactly the kind of conduct those laws were designed to eliminate. There is no public policy objective that justifies protecting that kind of conduct in our capital markets. This significant problem can be eliminated by simply adding language to make it clear that the safe harbor does not protect misstatements or omissions of existing material facts that would otherwise give rise to liability.

Finally, the statutory language does not require the cautionary statement to be addressed to the risks that are foreseeable or

most likely to occur. The approach in federal case law has been to require "[not just any cautionary language . . . [but] disclaimers . . . [that] relate directly to that on which investors claim to have relied." *Kline v. First Western Government Securities, Inc.*, 24 F.3d 480, 489 (3d Cir. 1994); see, e.g., *Harden v. Raffensperger, Hughes & Co.*, 65 F.3d 1392 (7th Cir. 1995); *In re Worlds of Wonder Securities Litigation*, 35 F.3d 1407 (9th Cir. 1994); *In re Donald J. Trump Casino Securities Litigation*, 7 F.3d 357, 371-72 (3d Cir. 1993), cert. denied, 114 S. Ct. 1219 (1994) ("cautionary statements must be substantive and tailored to the specific future projections, estimates or opinions in the prospectus which the plaintiffs challenge").

Section 13A(c)(1)(A)(i) should be revised to make it clear that cautionary statements are only "meaningful" if they identify the substantive factors that are most likely to cause actual results to differ materially—that is, they should be "tailored" to the real risks associated with the forward-looking statement.

Sanctions Against Lawyers and Parties

Section 103 of the proposed legislation provides for mandatory findings, upon the final adjudication of any case, as to whether each party and counsel has complied with Rule 11 of the Federal Rules of Civil Procedure. If the rule has been violated, under the proposed legislation the imposition of sanctions against an offending party or lawyer is mandatory. There is a presumption that an offending plaintiff or plaintiff's lawyer must pay all the legal fees and costs of the entire action, while an adverse finding against a defendant or defendant's lawyer creates a presumption that the defendant or defense counsel must pay the fees and costs directly caused by the dereliction. There are a number of serious problems with Section 103.

In its current form, Rule 11 authorizes federal courts to impose sanctions for pleadings, motions, and other steps that are taken for the purpose of harassment, are frivolous, are without evidentiary support, or are otherwise abusive. There is neither a mandatory finding nor mandatory sanctions. Prior to 1993, the rule provided for mandatory sanctions, but findings were made only upon the motion of an opposing party. The result was a large volume of collateral litigation. The Rule was changed in 1993 upon the recommendation of a nonpartisan advisory committee and after approval by the Supreme Court and the Congress. Those amendments to Rule 11 were designed, among other things, to reduce the collateral litigation by clarifying the rule's standards and removing the requirement of mandatory findings and mandatory sanctions will bring back a high level of collateral litigation in this area, a burden which the justice system can ill afford. Indeed, a major purpose of the proposed legislation is to reduce litigation.

Earlier drafts of the proposed legislation had included a "loser pays" provision, which was rejected by the Congress. The proposed legislation, by creating a presumption that the sanctions for violation of Rule 11 in connection with a plaintiff's complaint should be payment of all the legal fees and costs of the action, takes a significant step back in the direction of a "loser pays" rule.

While Section 103 permits the court to relieve counsel or a litigant from such draconian sanctions upon proof by the person seeking relief that the award would impose an unreasonable burden or would be unjust, or that the Rule 11 violation was de minimis, the threat that a hostile judge would impose sanctions that could wipe out a lawyer or litigant would have a chilling effect on even the most meritorious suits.

We believe that Rule 11 should remain in its current form, which accords substantial

discretion to the parties in deciding whether to request sanctions and to the trial judge in tailoring the sanctions to the wrongdoing.

OTHER COMMENTS

Pleading Requirements

The pleading requirement regarding the defendants' state of mind is more demanding in the proposed legislation than in S. 240. The proposed legislation would require that in a private action for money damages where the plaintiff must show that the defendant acted with a particular state of mind, "the complaint shall, with respect to each act or omission alleged to violate this title, specifically allege facts giving rise to a strong inference that the defendant acted with the required state of mind."

This language is derived from the case law developed in the United States Court of Appeals for the Second Circuit, but it incompletely sets forth the Second Circuit standard. See *Shields v. Citytrust Bancorp., Inc.*, 25 F.3d 1124, 1128 (2d Cir. 1994). On the Senate floor, Senator Specter offered an amendment, which was adopted by the Senate and contained in S. 240, that was designed to adopt the complete Second Circuit standard used by the courts: a strong inference that the defendant acted with the required state of mind may be established either—

(A) by alleging facts to show that the defendant had both motive and opportunity to commit fraud; or

(B) by alleging facts that constitute strong circumstantial evidence of conscious misbehavior or recklessness by the defendant.

Without the complete Second Circuit standard, courts would be given no guidance by the proposed legislation as to how a plaintiff can plead the required state of mind without the benefit of access to the defendants' thought processes and internal documents. Moreover, elimination of the Specter amendment might constitute evidence of legislative intent that such standard may not be used by the courts for guidance.

Enforcement Actions Based On Aiding and Abetting

The proposed legislation ineffectively deals with the consequences of the Supreme Court's decision in the *Central Bank* case, in which the Court held that there is no implied civil liability for aiding and abetting fraudulent conduct in violation of Rule 10b-5 promulgated under the 1934 Act. While its holding related to private litigation, the reasoning of the Court in *Central Bank* has led some to question the SEC's authority to prosecute aiders and abettors.

The proposed legislation does not restore aiding and abetting liability in private actions. In cases where the issuer has gone bankrupt, even though others have acted knowingly and in spite of the proposed legislation's adoption of proportionate liability, injured investors may be left with no recourse under the federal securities laws. The proposed legislation confirms the SEC's authority to pursue aiding and abetting claims, which we support. But the SEC can only prevail if the defendant has "knowingly provide[d] substantial assistance" to the primary wrongdoer, thereby probably barring the Commission from pursuing aiders and abettors who act recklessly.

As stated in our Report on S. 976, we believe that this restriction on the ability of the Commission to act is unwise. Some recent notorious cases have involved professional whose reckless conduct permitted unscrupulous but ultimately judgment-proof promoters to defraud the investing public of hundreds of millions of dollars. Since liability in SEC actions would be limited to aiders and abettors who know of the fraudulent conduct and render substantial assistance

anyway, the legislation could provide an incentive to professionals to close their eyes to red flags suggesting the existence of fraud in order to avoid obtaining actual knowledge.

Very truly yours,

STEPHEN J. FRIEDMAN,
Chairman,
Committee on Securities Regulation.

EDWIN G. SCHALLERT,
Chairman,
Committee on Federal Courts.

Mr. BLILEY. Mr. Speaker, I yield 2 minutes to the gentlewoman from California [Ms. HARMAN].

(Ms. HARMAN asked and was given permission to revise and extend her remarks.)

Ms. HARMAN. Mr. Speaker, I thank the gentleman from Virginia, Mr. BLILEY, for yielding and commend him, my colleague and friend from Orange County, Mr. COX, and the bipartisan group in both bodies who have worked so hard to bring the securities litigation reform conference report to the floor. I join them in strong support of the conference report and urge the House to vote for it.

Early in March, the House began the process of enacting a much needed reform of our securities laws. Today's conference report builds on that effort and melds the best features of both the House and Senate-passed bills into a measure worthy of support.

As many of my colleagues have already stated, the future of our Nation's competitive advantage lies in our ability to develop products that are on the cutting edge of technology and research. The business ventures which undertake such activities are among the fastest growing segments of our economy. Indeed, they are the pride of our economy and, for many of us, the pride of our districts and States.

As a corporate lawyer, I am well aware that many of these business ventures are saddled by the costs and distractions of unwarranted and meritless lawsuits, filed when stock prices fluctuate for reasons beyond the control of business management. The consequences of these abusive suits are costly legal proceedings that, in virtually every 10b-5 case, lead to settlements. Despite the absence of wrongdoing by management or management's advisers, corporations are essentially forced to pay large sums to avoid even larger expenses associated with putting on a legal defense.

During our debate in March, for example, I cited several cases, including that of Sun Microsystems, the world's leading manufacturer of computer workstations, Silicon Graphics of Mountain View, and Rykoff-Sexton of Los Angeles. They are only a few of the many examples of the huge waste in resources defending, as well as prosecuting, meritless cases.

Also targeted without regard to their actual culpability are deep pocket defendants, including accountants, underwriters, and individuals who may be

covered by insurance. As a consequence, the increased costs they suffer are passed along to businesses. Indeed, American companies pay higher premiums for director and officers insurance. One high-technology company had its premiums increased from \$29,000 per year for \$2 million in coverage when it was privately held, to \$450,000 per year for \$5 million in coverage when it went public. Its Canadian competitor pays \$40,000 for \$4 million in coverage.

It is critical to remember that investors are on both sides of these lawsuits. For one side, the return on their investments is reduced by the costs borne by the securities industry generally and the company in which they invested.

On the other side, even where they are legitimate claims investors are inadequately compensated because, under the current scheme, lawyers have incentives to settle quickly and move on to the next case.

These costs have consequences. Companies targeted because of their volatility of their stock prices have resources diverted from research and development, new product development, and market expansion. Millions of dollars that could be used for productive business purposes are consumed by wasteful lawsuits. Jobs are lost or never created.

The conference report before us ends abusive practices and restores investor control over lawsuits. Most importantly, it removes the incentives for abusive lawsuits, and requires courts to sanction parties for frivolous or factually unsupported arguments and motions.

Mr. Speaker, if our Nation is to continue to compete in the global market and to excel in those technologies that improve our living standard and that of the world, we need to reform our securities litigation system. We need to ensure that small high-technology and emerging growth companies can devote their resources to research and product development and promotion, instead of paying for the ill-gotten gains derived from abusive lawsuits.

I encourage my colleagues to support H.R. 1058.

Mr. MARKEY. Mr. Speaker, I yield 3 minutes to the gentleman from Michigan [Mr. CONYERS], the ranking member on the Committee on the Judiciary.

(Mr. CONYERS asked and was given permission to revise and extend his remarks.)

Mr. CONYERS. Mr. Speaker, I thank the distinguished gentleman from Massachusetts for yielding me this time. As the distinguished gentleman from Michigan and dean of the House, Mr. DINGELL, has pointed out, this is classic special interest legislation of, for, and by special interest lobbyists. Among the many outrageous provisions of the legislation is the 3-year statute of limitations. Unless a victim brings suit within 3 years, that victim can be forever barred, even if cir-

cumstances prevented his or her knowledge of the cause of action. That could leave those who would rob our seniors and other investors laughing all the way to the bank.

Witness the Washington Public Power System nuclear reactor case. In that case, there was a highly complex scheme to defraud relying on borrowed money, obscured by delayed construction, and eventually resulting in a massive bond default. A 3-year statutory bar in that case could have let the wrongdoers go scott free, because the discovery of the actual wrongdoing took years.

In the Prudential Securities case, in which over \$1 billion was paid to bondholders, the settlement required an actual waiving of the statute of limitations. That tells us that, if anything, the current law is already too burdensome for victims. Making it even more restrictive, as this measure proposes, is an outrage.

We also conveniently eliminate the civil RICO law that provides treble damages for securities fraud. It is a law that is continually relied on by our Nation's seniors and others who invest their life savings in retirement accounts only to have those accounts then stolen through fraud.

We create a safe harbor for misleading corporate statements about future investments which lure unsuspecting investors; in effect it's a license to lie. We also create immunization for all those wonderful middlemen in securities fraud schemes—lawyers, accountants, and brokers—who represented more than half of the legal judgments in the Keating scandal. We also create a wonderful new trick in the law, a loser pays provision, so that a fraud victim that dares sue a big corporation could end up paying the corporation's legal bill.

Then we eliminate joint and several liability, just to further prevent full recovery for even more fraud victims—that is if victims can still bring suit after the civil RICO and statutory limitation bars. This is the biggest rip-off that we are perpetrating.

This is no longer about the crooks in the investment and securities fraud. This is about what we are going to do. Keep a straight face if you can, but I believe that the Members of this House can do a little better in protecting the needs of our seniors and average investors than that very distinguished other body.

Mr. BLILEY. Mr. Speaker, I yield 3 minutes to the gentleman from Ohio [Mr. OXLEY].

Mr. OXLEY. Mr. Speaker, I thank the gentleman for yielding.

Mr. Speaker, I rise in support of the conference report on securities litigation reform.

Legislation to curb abusive securities-fraud lawsuits was approved by veto-proof margins by both Houses of Congress earlier in the year.

The conference report before us takes a moderate approach to the problem of

frivolous securities class-action lawsuits, also known as strike suits.

I would not suggest for a moment that all shareholder lawsuits are frivolous. Certainly, real cases of fraud do occur.

However, there is a collection of class-action lawyers out there who are filing meritless fraud suits against publicly traded companies, especially high-technology firms, whenever their stock prices fall.

A relatively small group of lawyers is responsible for the bulk of these suits, characterized by professional plaintiffs and victims on retainer. They have used the securities laws to win billions from corporations and their accountants.

Strike suits force American companies large and small to squander time and money defending unsubstantiated allegations. Even through 93 percent of these cases never go on trial, each lawsuit cost an average of 1,000 hours of management time and almost \$700,000 in legal defense fees. The average settlement costs a company \$8.6 million.

Meanwhile, defrauded mom and pop investors recover only 7 cents for every dollar lost in the market.

The reforms under consideration will return the focus of securities laws to their original purpose—protecting investors and helping actual victims of fraud.

This legislation has been described as a boom for securities firms, accounting firms, and public companies. I might add that it is a boon for employees of those companies, as well as anyone who invests in them in the hope that their stock will go up, not down.

These reforms are long overdue. They're good for American business, they're good for American competitiveness, and they're good for American investors.

□ 1215

Mr. MARKEY. Mr. Speaker, I yield 2 minutes to the gentleman from New Jersey [Mr. TORRICELLI].

Mr. TORRICELLI. Mr. Speaker, I thank the gentleman for yielding me time. There are few Members of this House, Mr. Speaker, who represent more of the financial community than I do in the communities in my New Jersey district. And so when this House originally considered securities reform, I thought it would make a real contribution. I was wrong.

There was an opportunity to deal with the abuses. Instead, we have raised an enormous new threat to the economy in the innovation and technology of our country. The American economy rests on the confidence of small family investors, retirees, and small business people who feel comfortable putting their life's savings in these markets, knowing if they are defrauded that they have recourse; that the little man and the big corporate leader have equal standing. Today, we

break that balance and we raise the prospect that America, which uniquely has brought all Americans into its investment markets, can lose.

This can be done right. I rise, Mr. Speaker, in support of the motion to recommit, in the belief that this time, if we have a legitimate conference, where the decisions are made by the conferees and not before they are even named, we can have a better bill.

The examples are clear. This is weaker than the original bill written by the other body. The language of "knowingly made with a purpose and actual intent of misleading investors" was dropped. The one protection we had for the little investor, for our retirees in our districts, for our little businessmen, now has no recourse.

House language was developed to provide there be no duty on corporate insiders to update their predictions, even if they are found to be false, but that language survived.

Mr. Speaker, I advise Members that this is an important enough provision to do it right. Vote for the motion to recommit, and if it fails, defeat the bill. Let us do it right.

Mr. BLILEY. Mr. Speaker, I yield 3 minutes to the gentleman from Louisiana [Mr. TAUZIN].

Mr. TAUZIN. Mr. Speaker, I thank the chairman. Members, first of all, there is no motion to recommit. The Senate had that motion, and the Senate has already acted on the conference report. There will be a straight up or down vote on the conference report, and I rise in strong support of that vote in favor of the conference report.

There is a reason why a majority of the Democrats joined the majority of the Republicans in this House in passing this bill earlier this year. There is a reason why so many Democrats from California, who live in the high-tech communities, rise in support of this bill in this conference report. It is because this bill finally addresses a legal system out of control.

The gentlewoman from California, Ms. HARMAN, said it best. There are two sets of stockholder investors at risk here. On the one hand, there are stockholders who honestly believe they have been defrauded. This bill protects their right to sue and to collect if, in fact, there has been a fraud committed against them. There is another group of stockholders. They are the stockholders who are left with the company who gets sued. They are the stockholders that have to lose money because their company has to buy exorbitant insurance coverage to protect themselves from these strike suits.

If Members do not think it is high, let me cite one high-tech company which was paying \$29,000 a year for \$2 million worth of coverage. When they went public, their insurance immediately jumped to \$450,000 a year for a \$5 million policy. Their counterpart in Canada, their competition, pays only \$40,000 a year for a similar policy. It is because of our legal system gone awry

that insurance costs have risen so high because of these strike suits.

The investors in America's companies should not have to pay these exorbitant insurance costs and these strike suit legal costs. We should fix this system.

If Members do not think it is broke, let me cite one good example from California. A company in California was strike sued immediately when their stock prices changed. A lawyer in California brought a suit saying, oh, there must have been fraud, the price of the stock dropped. And all the parties to the lawsuit, including the accountants in the office of the company, the board of directors, everyone had to go through an extensive period of a year of discovery.

It got so expensive, that in the interest of the shareholders, who still were invested in the company, they agreed to settle at 10 cents on the dollar, where 90 percent of these cases are settled. And so they settled it, because it was cheaper to pay the lawyers to go away than it was to continue fighting the lawsuit.

Guess what? Immediately thereafter another lawyer representing the stockholders who were still with the company brought another lawsuit against the company, alleging that it should not have paid anything to these lawyers for this frivolous lawsuit. They got sued for settling; they got sued in the firsthand. Danged if you do, dangd if you don't.

The law creates that kind of awful situation where stockholders get burned on both ends. The legal profession benefits. We need to fix this law so stockholders are protected, not lawyers. I urge adoption of the conference report.

Mr. MARKEY. Mr. Speaker, can we get a recap of the time at this point?

The SPEAKER pro tempore. The gentleman from Massachusetts [Mr. MARKEY] has 19½ minutes remaining and the gentleman from Virginia [Mr. BLILEY] has 17 minutes remaining.

Mr. MARKEY. Mr. Speaker, I yield 2 minutes to the gentleman from Oregon [Mr. WYDEN], the Democratic nominee for the Senate.

(Mr. WYDEN asked and was given permission to revise and extend his remarks.)

Mr. WYDEN. Mr. Speaker, I thank my good friend from Massachusetts for his courtesy, and I would only say to my colleagues that there are two ways in America to reduce fraud and protect investors and consumers. We can do it through litigation, and under any circumstances this involves playing catchup ball after a fraud has been perpetrated; or we can detect and deter fraud up front, and that is what this legislation requires.

For the first time in America, under this bill, accountants would be affirmatively required to search for, attempt to detect fraud, and report it to management. If management did not correct it, it would then have to be passed on to Government regulators.

I am of the view, and we saw this under the leadership of the gentleman from Michigan [Mr. DINGELL] that had this requirement been in effect in America, Charles Keating could have been stopped in his tracks cold. Because in the Keating case, the auditors had the goods. And instead of reporting the fraud, they simply shrunk away.

The fraud reporting requirement in this legislation, in my view, provides an opportunity to change the psychology in corporate board rooms all across America. Because in the future, management will know that they cannot have an auditor in their pocket. They will know that an auditor has a legal responsibility to report fraud when this legislation is signed.

So I ask my colleagues to support the bill. It provides a chance to try a fresh approach. Litigation is appropriate where consumers are fleeced, but let us do more to prevent fraud up front by requiring the auditors to blow the whistle. That is what this legislation requires, and I thank my good friend for yielding me the time.

Mr. BLILEY. Mr. Speaker, I yield myself such time as I may consume to say that I want to applaud the gentleman from Oregon and thank him for all his good work in the fraud section of this bill.

Mr. Speaker, I yield 2 minutes to the gentleman from Florida [Mr. DEUTSCH].

Mr. DEUTSCH. Mr. Speaker, I think something that has been pointed out previously but deserves to be pointed out again, is that this is a bipartisan bill in terms of over 50 percent of the Democrats supporting it.

In a sense, speaking to my Democratic colleagues, what I think is important for us to realize is that just because something is good for public corporations does not mean it is bad for America. I think that is something we need to understand as individuals, but also as a party as well.

If we talk about the specifics of this legislation, what occurs out there in the real world is that when a stock goes down, a company gets sued automatically, essentially. And there are professional plaintiffs out there that do this. The value added to the economy, to investors, to everyone in America of those lawsuits is negative. The effects are negative. The effects hurt America.

As a party, we care about jobs. As individuals and all Americans, we care about jobs. The effect of this, the existing system, is to hurt access to capital. Hurting access to capital hurts existing businesses, growth businesses, upstart businesses, which are really the major creators of wealth in new jobs in this country.

Mr. Speaker, in an era where we are competing in a world economy, to keep this shackle on us, especially when the value we are getting in terms of this focus of preventing fraud, and I think, as the gentleman from Oregon pointed out, this legislation, in terms of the real world, the real effect, will have a positive effect. This is not throwing

out protections at all. That is a hyperbole that has been discussed on the floor.

When we look at the specifics of what this legislation does, both in terms of affirmative duties of accountants, but in terms of SEC regulations as well, it is that investors' protection is not strong. What is cut out in this bill is frivolous lawsuits that have cost investors and cost our economy across America untold adverse effects over the years.

Mr. Speaker, I rise today in support of the conference agreement on securities litigation reform.

Yesterday, the Senate overwhelmingly endorsed this proinvestor bill and today, I am confident that the House will echo its support with equal strength. Quite honestly, it behooves me that anyone who understands this bill could oppose it. It is a simple decision, a decision between stimulating growth or promoting frivolous, mercenary law suits.

For far too long, economic growth and shareholder returns have been stifled by a ring of legal shackles that pumps the pockets of a few at the expense of many.

This bill will right a terrible injustice: the abusive practice of hiring professional plaintiffs and holding other shareholders as pawns in meritless securities lawsuits.

This bill will restore power to real investors in securities lawsuits, changing the rules so that actual investors, not predatory lawyers, call the shots. This bill will give the Government tough new powers to prevent securities fraud and to punish such fraud when it does take place.

South Florida is home to a great number of dynamic enterprises—growth companies. For these growth companies, passage of H.R. 1058 is a high priority, because H.R. 1058 is a jobs bill. When this bill becomes law, the innovators in my district will be able to spend more resources and effort in creating new jobs, and waste less time confronting frivolous lawsuits.

There's a false notion that this bill weakens the law. The fact is, this bill strengthens the law. It will strengthen the integrity of the law. It will strengthen the people's respect for the law. It will do this by putting fraudulent legal schemes by predatory lawyers out of business. H.R. 1058 will strengthen our capabilities for combating fraud.

This is bipartisan legislation. The majority of Members of my party, the Democratic Party, in this Chamber today will vote for this legislation. Progressive Democrats who also may be called New Democrats—Democrats who want innovative businesses to flourish and create jobs—support this bill.

Mr. Speaker, America's capital markets grew to be the strongest in the world in no small part because of our legal system's honesty and integrity. Reforming securities litigation laws will correct an unfortunate flaw in our system and give it the full strength we need to stay competitive in the world. For the good of every American who invests in stock or a pension plan, I urge my colleagues to vote for this bill, and I urge the President to sign it.

Mr. MARKEY. Mr. Speaker, I yield 3 minutes to the gentleman from California [Mr. BERMAN].

(Mr. BERMAN asked and was given permission to revise and extend his remarks.)

Mr. BERMAN. Mr. Speaker, the time will not allow me to tell the story of Z Best Carpet. I would need 10 minutes, but I will do the best I can, because I understand the motivation for this bill. I understand the problems that the proponents of this bill raise, but I would be interested, and maybe the gentleman from California [Mr. Cox], at some point, or one of the other proponents of the bill, could explain for me why they needed to go as far as they went.

Why did the opponents of this want to immunize from liability a company that, with full knowledge, and with fraudulent intent, lies about their future prospects? Not makes a mistake, not makes a prediction which turns out to be wrong, not even is reckless in making a suggestion, but with full knowledge of the facts decides to lie about the future in order to attract investors, in order to drive up the stock, and in order to make ill-gotten gain.

That provision goes too far in this bill, and that alone should force the Members of this body to reject this conference report.

Z Best Carpet, a company started by a 20-year-old, just went bankrupt, after a guy who had a total con job, pretending to restore carpets, getting lawyers and accountants to certify what he was doing was real, having a public offering, putting out press releases with false statements, attracting tens of millions of dollars of investors, whose money was lost completely by virtue of this totally empty business. If this bill were in place with this provision that immunizes fraudulent statements about future predictions, where he would predict huge earnings based on the total phony statement of revenues that never existed, all the people who were involved in that future prediction would be immunized from liability.

The safe-harbor provisions and the recitals of potential problems in the future do not do anything to take away from the fact that he decided to put something in writing which he knew to be false, and that is wrong.

□ 1230

What happened here was a settlement was made. The investors recovered 55 cents on the dollar. If this bill were in place, they would have gotten nothing. I do not think that is right. I think in trying to deal with a serious problem, my colleagues have gone too far. I do hope that the body rejects this particular proposal.

Mr. COX of California. Mr. Speaker, will the gentleman yield?

Mr. BERMAN. I yield to the gentleman from California, but I will respond to the response, if the gentleman will make it short.

Mr. COX of California. Mr. Speaker, I am not sure I understood the qualification, but if the gentleman is yielding to me I would be pleased to respond to the question that he earlier raised.

Mr. Speaker, I have before me a letter from CALPERS, the California

Public Employees Retirement System, which as you know is the largest publicly funded retirement system in the country.

The SPEAKER pro tempore (Mr. LAHOOD). The time of the gentleman from California has expired.

Mr. BLILEY. Mr. Speaker, I yield 1 minute to the gentleman from California (Mr. Cox).

Mr. COX of California. Mr. Speaker, this is a comment by CALPERS, by our publicly funded retirement system in California, which takes care of the retirement assets of all of our workers. They are very concerned about the status quo, because right now there is not sufficient disclosure for them to make decisions about how to invest. They want to make sure that when a company tries to help them with what is called forward-looking information, that they do not risk a lawsuit.

Mr. Speaker, it is impossible, if we are being fair in our definition of "fraud," to say that when we are talking about future events someone did it fraudulently. Existing law requires that there be statements.

Mr. BERMAN. Mr. Speaker, will the gentleman yield?

Mr. COX of California. I yield to the gentleman from California.

Mr. BERMAN. Mr. Speaker, I want to protect forward-looking statements and I want to protect that ability to attract investors. I am not asking that they be necessarily accurate all the time, or right, or correct. I am saying that when they know what they are saying in the future that their non-existent revenue will grow by 30 percent each year, that that should not be immunized.

Mr. MARKEY. Mr. Chairman, I yield myself 3 minutes.

Mr. Speaker, the first and perhaps the most important overall criticism of this bill is it severely undercuts the deterrent function of the laws against fraud. Those are the first protections that the marketplace provides to investors to induce them into the marketplace so that, in fact, there are robust, long-term levels of investment in our economy.

Let me give the specific concerns which we have about this bill. It is absolutely unbelievable. First, the new safe harbor provision. We should call it a safe ocean. By the way, the SEC is going to need a two-ocean navy to police this safe ocean which is constructed in this bill.

It confers immunity from liability even for intentionally fraudulent forward-looking statements, intentional written misrepresentations about forward-looking information. Even if for the express purpose of defrauding investors, it may be entirely immunized from liability as long as they are accompanied by meaningful cautionary language.

Second, the new safe harbor, safe ocean, may rescind the duty to update past projections, even if a company learns that they were false and misleading. A company's duty to provide

updated information if it learns that a previous forward-looking statement is false may be eliminated based on the language in the draft conference report.

If so, the company would be free to leave false information in the public domain and to withhold, to withhold accurate, updated information even if its purpose is to deceive or mislead investors.

Third, a new provision invites the courts to legalize reckless conduct. The conference report fails to codify the recklessness standard used by the Federal courts and expressly instructs the courts not to infer from the legislative history of this bill any congressional intent to endorse recklessness as a liability standard.

The conference report, furthermore, eliminates the SEC's ability to prosecute those who recklessly aid and abet fraud. The conference report fails to restore any form of civil liability for those who aid and abet fraud.

The conference report fails to restore a reasonable standard of limitations, only 3 years. It took years, many more than 3 years, to find out what frauds were perpetrated under Garn-St Germain that passed this House in 1981. We were learning in 1987 and 1988 and 1989. We are telling poor, innocent investors if they cannot find out what these malefactors are engaged in in 3 years, we are sorry, they have lost their life savings. That is wrong. It is an unreasonable number and the S&L crisis instructs us that it is wrong. We should do better by the investors of this country.

The SPEAKER pro tempore. The gentleman from Virginia (Mr. BLILEY) has 14 minutes remaining, and the gentleman from Massachusetts (Mr. MARKEY) has 11½ minutes remaining.

Mr. BLILEY. Do we have the right to close, Mr. Speaker?

The SPEAKER pro tempore. The gentleman is correct.

Mr. BLILEY. Mr. Speaker, I yield 2 minutes to the gentlewoman from California (Ms. ESHOO).

Ms. ESHOO. Mr. Speaker, I rise in strong support of the conference report on securities litigation reform and as a member of the conference committee, I urge my colleagues to vote in favor of this revised and improved bipartisan legislation.

Anyone looking at the growing number of strike suits being brought against American companies today can only conclude that our legal system needs repair. This conference report provides the necessary reforms to address and remedy these problems.

As the Representative from Silicon Valley, I know that businesses in my region place themselves in of two categories: those that have been sued for securities fraud and those that will be. The vast majority have already been sued—resulting in hundreds of millions of dollars in needless expenses.

This legislation provides companies with relief, but not a blank check. The

right of investors to sue in cases of actual fraud is protected by this bill.

It does this by eliminating fishing expedition lawsuits, ending the use of professional plaintiffs, stopping the practice of offering bounties to plaintiffs for signing their names to documents, and allowing companies to make forward-looking statements without liability as long as these statements are accompanied by specific warnings that their predictions may not come true.

Further, this legislation has evolved greatly since we considered this issue last March. On nearly every point of contention, it has been modified to meet the concerns of the Senate, the SEC, and the administration to protect the consumers from actual fraud.

Mr. Speaker, the securities litigation reform conference report is good for investors and businesses alike.

I urge all my colleagues to support this important bipartisan legislation.

Mr. MARKEY. Mr. Speaker, I yield myself 30 seconds.

Mr. Speaker, I rise to compliment the work of Timothy Forde and Consuela Washington, who were the two counsels for the minority who worked on this bill throughout the course of this year. They developed an alternative bill which dealt fully with all of the frivolous lawsuits that had been brought over the past decade and would have cured the problem. I just want to recognize their good work at this time, and also mention the work of Jeffrey Duncan and Alan Roth and their help on this.

Mr. Speaker, I yield 2 minutes to the gentleman from Pennsylvania (Mr. KLINK).

Mr. KLINK. Mr. Speaker, a little earlier this afternoon, a previous speaker repeated a myth that I think is widely characterized, or could be widely characterized, as a scare tactic. Sometimes we are prone to repeat things over and over again in hopes that either we ourselves start to believe them, or that our colleagues will be scared into believing them.

Mr. Speaker, what that speaker said is that lawsuits automatically are filed when a stock price falls 10 or 20 percent, and that is just simply not the truth.

Three recent detailed studies document the falseness of this argument. In one, a comparison of the number of stock price drops of 10 percent or more in 1 day between the years of 1986 and 1992, and the number of suits filed against those companies whose stocks dropped revealed that only 2.8 percent of those companies ever were sued.

The second study was done by Baruch Lev of the University of California at Berkeley. It was completed in August 1994; in it, a test sample of 589 cases of large stock price declines following a quarter earnings announcement. Extensive research by Lev has revealed that only 20 lawsuits amounting to 3.4 percent of the sample ever were sued.

As Lev noted in his finding, it was hardly consistent with the widespread

belief that shareholder litigations are automatically triggered by large stock price declines.

Lev's study was consistent with a third study by academics at the University of Chicago. This was back in March 1993. That study took in 51 companies that sustained 20 percent or greater declines in earnings or sales and that revealed that only one company was the target of a shareholder lawsuit.

So, I will say, my colleagues can keep repeating these myths, they can hope that they can convince themselves and their colleagues to believe them, but the fact of the matter is when we look at these academic studies that it is simply not true, and this conference report should be voted down.

Mr. BLILEY. Mr. Speaker, I yield 2 minutes to the gentleman from Washington (Mr. WHITE).

Mr. WHITE. Mr. Speaker, I would like to just respond to the previous speaker, because I can tell my colleagues that 11 months ago I was a lawyer in private practice in Seattle. Anybody who has been practicing law, or involved in this area in the real world recently, knows for sure that this stuff happens.

Mr. Speaker, I can tell my colleagues that there are lawyers in Seattle, WA, who have computer hookups into the stock market and who look at those carefully to decide who to sue. I can tell my colleagues that, frankly, we are in a system right now that anybody who is familiar with it knows it is badly broken and needs to be fixed.

Mr. Speaker, let me say a couple of words about why this system as it works now is so bad, because it is really counterproductive to the very goals we are trying to achieve. The current system prevents people from disclosing information investors would like to have because they can never be sure that they will not be sued for it.

It hurts small companies, because those are the ones that have volatile stock prices. Those are just the companies that need to continue to prosper and who can least afford the cost of a big lawsuit. The worst thing, the thing that bothers me most about the current state of the law, is that it is turned into an elaborate game of chance, not based on right or wrong or justice or injustice, but based on a system that allows lawyers to extort companies and force them to go through a long procedure, even if they are totally innocent, before they can be proven to be innocent.

Mr. Speaker, this law is badly needed. It frankly does not go far enough, but it is a step in the right direction. I urge all my colleagues to support the conference report.

Mr. MARKEY. Mr. Speaker, I yield 3 minutes to the gentleman from Texas (Mr. GONZALEZ), the ranking minority member of the Committee on Banking and Financial Services.

Mr. GONZALEZ. Mr. Speaker, as has been emphasized at different times during this last year, particularly, legislation that jeopardizes the rights of honest investors will have a number of very negative consequences, of course.

First, creating substantial obstacles to legitimate lawsuits will significantly diminish deterrence, arguably the most important function of the antifraud provisions of the securities laws. Of course, through the years, and my membership on the Committee on Banking and Financial Services since I came here in 1961, we have faced this repeatedly.

Second, if deterrence is, in fact, diminished, then we are likely to see a significant increase in deceitful and dishonest activity in the market. We have witnessed that in the past.

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It is human nature to do what you can and get away with it. If people know that they are unlikely to be caught or to be held accountable for their actions, the temptation is for many to push the frontiers of what they can get away with. This is especially true when the rewards can be immense. Indeed, this is why each of us supports reforms of the procedures governing securities class action suits.

The argument that plaintiffs' lawyers will push the frontiers of what they can get away with if there are not proper mechanisms to hold them accountable for their actions does have merit. But plaintiffs' lawyers are not endowed with any qualities that we know of that makes them succumb to temptation more quickly or frequently than anyone else. And nowhere are the rewards as tempting as they are in the field of securities investments where companies, corporate executives, and financial professionals can potentially make immense profits merely by shading or withholding the truth.

In fact, there have been so many massive financial frauds and scandals related to securities in recent years that they can be recalled by reference to a single name, Prudential, Salomon Brothers, Kidder Peabody, Drexel, the Washington Public Power Supply System, the famous or infamous Lincoln Savings, PharMor, Miniscribe, Centrust. All of these loom large in our memories or some of the older ones. To that list we can now add Orange County, Barings, Daiwa, New Era, and the Common Fund. It is remarkable that investor confidence in our markets has not been shaken by these events.

Mr. BLILEY. Mr. Speaker, I yield 2 minutes to the gentlewoman from California [Ms. LOFGREN].

(Ms. LOFGREN asked and was given permission to revise and extend her remarks.)

Ms. LOFGREN. Mr. Speaker, I rise in support of this legislation. When the bill came before the House last March, I was actually torn. The legislation brought before us then overreacted to what was a very real problem.

I represent an area in California, Silicon Valley, that is home to numerous high-technology companies. These firms are high-growth, entrepreneurial companies with cutting edge new ideas. They are companies of the future. Due to the changeable nature of high-technology industries, stock prices for enterprises can be somewhat volatile.

Current law allows these price fluctuations to form the basis for lawsuits even when no real fraud has occurred. Our local newspaper has found that 19 of the 30 largest companies in Silicon Valley have fallen prey to securities suits. Most of the others expect to be sued soon. Many high-technology companies accordingly now refuse to provide any information about their future performance in order to avoid liability, which deprives all investors of important information.

This is a problem for our economy. Although I was concerned about the original House version of this bill, I am very pleased with the conference report, as it resolves most of the issues I saw at that time.

Unlike the House passed bill, the conference bill has no loser-pay provision, preserves joint and several liability, adopts fair changes to pleading requirements, which are already the law in one Federal circuit, and codifies what I believe is a reasonable safe harbor provision that has already been endorsed by the Securities and Exchange Commission.

Mr. Speaker, I have opposed most of the extreme litigation reform measures pushed through this Congress, but this bill is quite different from those other proposals.

Let me address one final point. This bill is not perfect. It does not address some issues that could have been addressed such as the issues of the statute of limitations and civil liability for aiding and abetting fraud. Those problems, if they are problems, can, if need be, be dealt with in subsequent legislation. But this bill does not create those problems. It does not solve those problems. It is neutral on those problems and is not a valid reason for not endorsing this very moderate, sensible bill that I hope our President will sign. I urge my colleagues to vote for it.

Mr. MARKEY. Mr. Speaker, I reserve the balance of my time.

Mr. BLILEY. Mr. Speaker, I yield 2 minutes to the gentleman from Massachusetts [Mr. BLUTE].

Mr. BLUTE. Mr. Speaker, I thank the distinguished gentleman for yielding time to me.

Mr. Speaker, the engine of economic growth in this country is under assault from some lawyers who give the term "gone fishing" an entirely new meaning. These lawyers are trolling for easy money won from vulnerable companies whose only crime is being subject to a volatile market.

Small entrepreneurial high tech companies in Massachusetts are being hit with strike suits which seek damages for a loss in stock value. Since going

public, recently a number of companies in Massachusetts have been subject to not just one but two and three such suits. One was filed less than 24 hours after this company disclosed quarterly earnings lower than the previous quarter.

This is not unusual. Hundreds of suits are filed by lawyers and professional plaintiffs who prey on small high tech firms because their stocks tend to be more volatile and they are more inclined to settle. In fact, between 1989 and 1993, 61 percent of all strike suits were brought against companies with less than \$500 million in annual sales and 33 percent against companies with less than \$100 million in sales.

The problem is critical because these high tech companies are the innovators where many of our cutting edge technologies are being discovered. Biotechnology companies, for example, in my district are developing treatments for cancer and AIDS. Strike suits are jeopardizing the development of those life saving products by holding companies hostage and forcing them to divert important resources to fighting these suits.

I want to commend the gentleman from Virginia [Mr. BLILEY], and the gentleman from Texas [Mr. FIELDS], for bringing this bill forward. I think it is a step in the right direction. It is going to help our country. It is going to help our entrepreneurial sector. I think it should be passed, and I think it should be supported by everyone in this House.

Mr. BLILEY. Mr. Speaker, I yield myself 30 seconds.

Mr. Speaker, first of all, I would like to thank the long and hard efforts of the majority staff, David Cavicke, Linda Rich, Brian McCullough and Ben COHEN.

GENERAL LEAVE

Mr. BLILEY. Mr. Speaker, I ask unanimous consent that all Members have five legislative days to revise and extend their remarks and include extraneous material on the conference report.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Virginia?

There was no objection.

Mr. BLILEY. Mr. Speaker, I reserve the balance of my time.

Mr. MARKEY. Mr. Speaker, I yield myself 2 minutes.

Mr. Speaker, just so that all who are listening can understand, the cases which we are talking about at this time constitute one-tenth of 1 percent of all cases brought in Federal district court, approximately 125 companies a year.

Yes, we agree that frivolous suits have to be dealt with and we can construct a guaranteed procedural safeguard to ensure that they are not brought. But what we have here is a specific attempt to ensure that this